Senate Passes Tax Reform Bill, But It Isn't Over Yet

On Saturday, December 2, in the early morning hours, the Senate voted to pass the "Tax Cuts and Jobs Act," after vigorous debate and a number of amendments. The bill, which needed only 50 votes to pass (with Vice President Pence as a tiebreaker) under reconciliation rules, passed in a 51-49 vote, eliminating the need for Vice President Pence to break a tie.

Previously expected to pass November 30, efforts to push the bill through stalled. The reason was a trigger mechanism that had been contemplated to quell deficit fears by increasing taxes if economic growth didn't meet or exceed projections. The trigger was found to violate budget rules that would shield the vote from a filibuster. As a result, the trigger was not added, calling key Republican votes into question. Then, the Joint Committee on Taxation projected an additional $1 trillion in deficit impacts over the next ten years, even taking expected economic growth into account. Debate and deal-making continued through Friday, December 1.

"Tax reform has taken a step closer to reality with Saturday's vote," Dan Vodvarka, Society President said, "Nevertheless, we expect our profession to stay fully engaged through the next steps."

"Senate passage of a tax package paves the way for a conference, which will attempt to reconcile differences between the Senate and House bills," said Edward Karl, CPA, CGMA and Vice President of Taxation for the AICPA. "The AICPA's Advocacy Team remains fully engaged in the process and will continue to keep members informed as the debate continues."

The final version of the bill features some changes from the initial version.

- A provision providing up to $10,000 in deductions for state and local property taxes paid.
- Owners of pass-through businesses, who would have received a 17.4% deduction of their business income under the original plan, saw their deduction rise to 23%.
- The bill initially called for a repeal of the alternative minimum tax (AMT) on both individuals and corporations. In the final bill, the AMT is retained for corporations, and trimmed for individuals.
- A five-year limit was imposed on businesses looking to write off the full value of new capital investments immediately, with a four-year phase-out beginning in year six. The bill in its first draft completely ended the write-off benefit after year five.

Most of the bill's tax cuts for individuals would expire in 2025 to comply with Senate budget rules. The reduction in corporate rates to a flat 20%, however, would be permanent.

The House has already passed its own version also termed the "Tax Cuts and Jobs Act." Though a high hurdle has been cleared, the process is far from over. Any bill must be approved by both houses of Congress and signed by the President. With two different bills on the table, Congress will need to reconcile differences into a single unified bill, which would then require Congressional approval.

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